

SUPPLEMENTAL DIRECT TESTIMONY

OF

JANIS FREETLY

SENIOR FINANCIAL ANALYST

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY

**Petition for Approval of Delivery Services Tariffs and Tariff Revisions
and Residential Delivery Services Implementation Plan, and for
Approval of Certain Other Amendments and Additions
to its Rates, Terms, and Conditions**

Docket No. 01-0423

September 6, 2001

OFFICIAL FILE

I.C.C. DOCKET NO. 01-0423
Step 4
Exhibit No. 50
Witness _____
Date 11/11/01 Reporter AV

1 **Q. Please state your name and business address.**

2 A. My name is Janis Freetly. My business address is 527 East Capitol Avenue,
3 Springfield, Illinois 62701.

4 **Q. Are you the same Janis Freetly who previously testified in this proceeding?**

5 A. Yes, I am.

6 **Q. Please state the purpose of your supplemental direct testimony.**

7 A. The purpose of my supplemental direct testimony is to update my analysis of the
8 cost of capital for the electric delivery service operations of Commonwealth Edison
9 Company ("ComEd") to reflect the July 2001 IBES growth rates. The updated
10 growth rates affect my discounted cash flow ("DCF") analysis of ComEd's cost of
11 common equity and, consequently, my overall cost of capital recommendation.

12 **Q. Which schedules from your direct testimony does this update affect?**

13 Q. The IBES growth rate update affects Schedules 5.1, 5.3, 5.5, and 5.6. The
14 corresponding revisions are presented in Schedules 12.1, 12.2, 12.3, and 12.4,
15 respectively.

16 **Q. Please summarize your cost of capital findings.**

17 A. My revised DCF analysis produced required rate of return on common equity
18 estimates of 13.34% for the Electric Sample and 11.97% for the Gas Sample, as
19 shown on Schedule 12.4. The average investor required rate of return on common

20 equity for the Electric sample, 12.14%, is based on the average of the revised DCF-
21 derived results (13.34%) and the risk premium-derived results (10.94%). The
22 average investor required rate of return on common equity for the Gas sample,
23 11.52%, is based on the average of the revised DCF-derived results (11.97%) and
24 the risk premium-derived results (11.06%). I applied one-third weight to the electric
25 sample average investor-required rate of return on common equity, and two-thirds
26 weight to the gas sample average investor-required rate of return on common
27 equity.¹ My recommended cost of equity for ComEd, 11.72%, is the result of that
28 calculation.

29 As shown on Schedule 12.1, ComEd's overall cost of capital is 8.75%. The
30 recommended estimate incorporates a cost of common equity of 11.72%.

31 **Q. Does this conclude your supplemental direct testimony?**

32 **A.** Yes, it does.

¹ ICC Staff Exhibit 5.0, Direct Testimony of Janis Freetly, p. 31.

Commonwealth Edison Company

Weighted Average Cost of Capital

Company Proposal

Pro-forma December 31, 2000

<u>Component</u>	<u>Balance</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-term Debt	\$6,963,798,000 ¹	53.99%	7.14%	3.86%
Common Equity	<u>\$5,933,786,000 ²</u>	<u>46.01%</u>	13.25%	<u>6.10%</u>
Total Capital	\$12,897,584,000	100.00%		
Weighted Average Cost of Capital				9.95%

¹ Pro-forma adjustments through December 31, 2002

² Pro-forma adjustments through January 2001

Staff Proposal

March 31, 2001

<u>Component</u>	<u>Balance</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-term Debt	\$7,629,187,696	60.64%	6.82%	4.14%
Common Equity	<u>\$4,952,000,000</u>	<u>39.36%</u>	11.72%	<u>4.61%</u>
Total Capital	\$12,581,187,696	100.00%		
Weighted Average Cost of Capital				8.75%

Commonwealth Edison Company

Growth Rate Estimates

Electric Sample

<u>Company</u>	<u>Zacks Earnings</u>	<u>IBES Earnings</u>	<u>Average</u>
American Electric Power	6.70%	5.88%	6.29%
CLECO Corp.	10.00%	10.03%	10.02%
DPL Inc.	10.25%	9.54%	9.90%
DQE Inc.	5.25%	5.67%	5.46%
Kansas City Power and Light	6.00%	5.67%	5.84%
NSTAR	6.60%	6.80%	6.70%
Puget Energy	5.33%	5.50%	5.42%

Gas Sample

<u>Company</u>	<u>Zacks Earnings</u>	<u>IBES Earnings</u>	<u>Average</u>
AGL Resources Inc.	6.59%	7.16%	6.88%
Atmos Energy Corp.	7.33%	8.00%	7.67%
Cascade Natural Gas Corp.	5.30%	5.50%	5.40%
NUI Corp	9.67%	10.95%	10.31%
Northwest Natural Gas Co.	5.75%	4.24%	5.00%
Peoples Energy Corp.	6.50%	5.43%	5.97%
Piedmont Natural Gas Co.	6.75%	5.33%	6.04%
South Jersey Industries	5.15%	6.00%	5.58%

Sources: *Zacks Investment Research*, <http://myzacks.com>, August 6, 2001.
Institutional Brokers Estimate System, July 19, 2001.

Commonwealth Edison Company

Expected Quarterly Dividends

Electric Sample

Company	D _{1,1}	D _{1,2}	D _{1,3}	D _{1,4}
American Electric Power	0.638	0.638	0.638	0.638
CLECO Corp.	0.220	0.220	0.239	0.242
DPL Inc.	0.235	0.258	0.258	0.258
DQE Inc.	0.420	0.443	0.443	0.443
Kansas City Power and Light	0.415	0.439	0.439	0.439
NSTAR	0.515	0.550	0.550	0.550
Puget Energy	0.485	0.485	0.485	0.485

Gas Sample

Company	D _{1,1}	D _{1,2}	D _{1,3}	D _{1,4}
AGL Resources Inc.	\$0.270	\$0.289	\$0.289	\$0.289
Atmos Energy Corp.	0.290	0.312	0.312	0.312
Cascade Natural Gas Corp.	0.253	0.253	0.253	0.253
NUI Corp	0.270	0.270	0.270	0.270
Northwest Natural Gas Co.	0.325	0.325	0.325	0.325
Peoples Energy Corp.	0.510	0.540	0.540	0.540
Piedmont Natural Gas Co.	0.385	0.385	0.408	0.408
South Jersey Industries	0.370	0.370	0.391	0.391

Sources: Staff Schedules 12.2 and 5.4.

Commonwealth Edison Company

DCF Cost of Common Equity Estimates

Electric Sample

<u>Company</u>	<u>Estimate</u>
American Electric Power	12.12%
CLECO Corp.	14.41%
DPL Inc.	14.14%
DQE Inc.	13.70%
Kansas City Power and Light	13.22%
NSTAR	11.96%
Puget Energy	<u>13.84%</u>
Average	<u>13.34%</u>

Gas Sample

<u>Company</u>	<u>Estimate</u>
AGL Resources Inc.	11.83%
Atmos Energy Corp.	13.85%
Cascade Natural Gas Corp.	10.55%
NUI Corp	15.39%
Northwest Natural Gas Co.	10.45%
Peoples Energy Corp.	11.91%
Piedmont Natural Gas Co.	11.08%
South Jersey Industries	<u>10.67%</u>
Average	<u>11.97%</u>